

The gifting club “gotcha”

When is a gift not a gift? When it’s a “gotcha.”

In a scam spreading throughout the country, people pay to join a “gifting club,” billed in promotional materials as a private club with members eager to help new friends—often from within their own neighborhood or church group.

In reality, the clubs are illegal pyramid schemes. New club members give cash “gifts” to the highest-ranking club members, with titles such as “captains.” And they’re promised that if they get additional members to join the club, they, too, will rise to become captains and receive money—far more than they initially paid to join the club—from newer club “friends.”

The problem is that, like most pyramid schemes, illegal gifting clubs must continually recruit ever-increasing numbers of members to survive. When the clubs don’t attract enough new members, they collapse. Most members who paid to join the clubs never receive the financial

“gifts” they expected, and lose everything they paid to join the club.

Don’t get on the receiving end of a gifting club “gotcha”

Promises of quick, easy money can be a powerful lure—especially when it comes with the additional benefit of new friendships.

If you’re approached about joining a club but you aren’t sure if it’s an illegal gifting club, the Bureau of Consumer Protection reminds you to:

- Consider that a legitimate gift has no strings attached and is not an “investment.”
- Avoid being misled into thinking a gifting club is legitimate because the ads say that members consider their payments a gift and expect nothing in return. This is an attempt to make an illegal transaction look legal.
- Be wary of success stories or testimonials of tremendous

payoffs. Very few members of illegal gifting clubs or pyramid schemes ever receive any money.

- Take your time. Don’t buckle under to a high-pressure sales pitch that requires you to join immediately or risk losing out on the opportunity. Remember, solid opportunities—and solid friendships—aren’t formed through nerve-wracking tactics.

If you’ve been victimized by a gifting club promoter, contact the Bureau of Consumer Protection at:

(800) 422-7128

FAX: (608) 224-4939

TTY: (608) 224-5058

E-MAIL:
datcph hotline@datcp.state.wi.us

WEBSITE:
<http://datcp.state.wi.us/>

(Taken from the FTC Consumer Alert, “The Gifting Club “Gotcha” 12/99)

(over)

New twist to pyramid schemes

Do you have a friend who wants to “let you in on the ground floor” of a fantastic business opportunity? Think twice if the opportunity involves making an initial “gift” and then you just have to recruit new members into the business—this is only a new twist to the age-old pyramid scheme.

Pyramids are subject to Wisconsin laws that prohibit untrue, deceptive or misleading presentations and unfair practices.

The new twist

Pyramid schemes may be disguised as games, buying clubs, motivational companies, chain letters, mail order operations or multi-level business opportunities. They all have the theme of get-rich-quick. The latest versions are called “giving” or “gifting” networks. Consumers are asked to “make a contribution” to the chairperson of the plan, who is on top of the pyramid.

Pyramid promoters are targeting closely-knit social and religious organizations, encouraging participants to bring in friends and relatives. People want to believe friends or relatives, so they are discouraged from checking

first with The Bureau of Consumer Protection or Better Business Bureau.

There are many types of pyramid schemes, and the number of people involved varies. Consider the numbers if one person recruited six “investors,” each of whom, in turn, had to recruit six others. Carried through nine progressions it would require over 10 million people! (See illustration).

Pyramid Progression	
Level	# of People
1	6
2	36
3	216
4	1,296
5	7,776
6	46,656
7	279,936
8	1,679,616
9	10,077,696

The company or one individual is at the top. When the supply of people runs out, the pyramid collapses, and most people at the bottom of the pyramid lose their money.

Characteristics of a pyramid

- Emphasis is on recruiting new participants, rather

than selling a product or service.

- A product or service may be offered but is largely ignored.
- Presented as a “unique” way to obtain quick and easy living.
- Unclear where money is being spent.
- Concentrate on recruiting people with limited means and knowledge of business.
- Participants may initially make some money.
- Participants rarely complain.

Protect yourself

Before you invest, ask for the company's business and financial statements. Check references and background. Where is the company incorporated: Out-of-state corporations are often difficult to track down.

Beware of statements by the company that it has the approval of a government agency, Better Business Bureau or Chamber of Commerce. None of these organizations ever endorse or approve specific marketing plans.